

**GRADY COUNTY CRIMINAL JUSTICE AUTHORITY**

Financial Statements  
and  
Independent Auditor's Report

June 30, 2018

# GRADY COUNTY CRIMINAL JUSTICE AUTHORITY

June 30, 2018

## CONTENTS

<b>Independent Auditor's Report</b>	A-1
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### **Financial Statements**

Statement of Net Position	B-1
Statement of Revenues, Expenses and Changes in Net Position	B-2
Statement of Cash Flows	B-3
Notes to Financial Statements	B-4

### **Supplementary Information**

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an audit of Financial Statements performed in accordance with <i>Government Auditing Standards</i>	C-1
Schedule of Findings and Responses	C-3

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Grady County Criminal Justice Authority

### Report on the Financial Statements

We have audited the accompanying financial statements and related notes to the financial statements of Grady County Criminal Justice Authority as of and for the year ended June 30, 2018, which collectively comprise the Grady County Criminal Justice Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Basis for Qualified Opinion**

The Authority's employees are provided with defined benefit pensions through a cost-sharing multiple-employer plan. For years beginning after June 15, 2014, accounting principles generally accepted in the United States of America require employers participating in cost-sharing plans to recognize their proportionate share of the collective pension amounts for all benefits provided through the plan, which would create a net pension liability in the financial statements and affect the amount of pension expense recognized each year. Management has elected not to implement the pension reporting standards promulgated by the Government Accounting Standards Board (GASB). The amounts by which this departure would affect the liabilities, net position and expenses of the Authority have not been determined.

### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Grady County Criminal Justice Authority as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### **Required Supplementary Information**

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2020 on our consideration of the Grady County Criminal Justice Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Grady County Criminal Justice Authority's internal control over financial reporting and compliance.



Duncan, Oklahoma  
January 31, 2020

**GRADY COUNTY CRIMINAL JUSTICE AUTHORITY**  
**Statement of Net Position**  
**June 30, 2018**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 5,713,113
Accounts Receivable	1,314,925
Accrued Investment Income	4,622
<i>Total Current Assets</i>	<u>7,032,660</u>

**Investments**

US Treasury and Agency Securities	694,266
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**Capital Assets**

Facilities Leasehold, Net	13,432,336
Property and Equipment, Net	1,256,557
<i>Total Capital Assets</i>	<u>14,688,893</u>

**Restricted Cash**

Commissary and Phone Revenue Cash	246,527
Inmate Trust Fund Cash	145,133
Bond Trust Fund Accounts	2,670,080
<i>Total Restricted Cash</i>	<u>3,061,740</u>

*Total Assets* \$ 25,477,559

**LIABILITIES**

**Current Liabilities**

Accounts Payable-Operating	\$ 177,925
Accounts Payable-Construction	159,647
Accrued Payroll and Vacation	86,312
Inmate and Commissary Payable	105,161
Accrued Bond Interest	197,983
Current Portion Bonds Payable	295,000
<i>Total Current Liabilities</i>	<u>1,022,028</u>

**Long-Term Liabilities**

2012 Bonds Payable, Net of Current Portion	16,675,000
Less: Unamortized Bond Discount	(235,171)
<i>Total Long-Term Liabilities</i>	<u>16,439,829</u>

*Total Liabilities* 17,461,857

**NET POSITION**

Invested in Capital Assets, Net of Related Debt	(2,045,936)
Unrestricted	7,105,059
Restricted for Debt Service	2,670,080
Restricted for Inmate Services	286,499
<i>Total Net Position</i>	<u>8,015,702</u>

*Total Liabilities and Net Position* \$ 25,477,559

**GRADY COUNTY CRIMINAL JUSTICE AUTHORITY**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year ended June 30, 2018**

**Operating Revenues**

Incarceration Services	\$ 9,807,484
Inmate Transportation and Guard	419,460
Telephone and Commissary Commission	497,244
Other	4,633
<i>Total Operating Revenues</i>	<u>10,728,821</u>

**Operating Expenses**

Inmate Services

Meals	512,035
Medical and Dental (Net of reimbursements)	838,339
Transportation	90,589
Jail Property and Supplies	196,362
	<u>1,637,325</u>

Personnel

Salaries and Wages	3,122,123
Benefits and Taxes	1,142,868
Uniforms, Training, Other	47,740
	<u>4,312,731</u>

Facilities and Administration

Utilities & Communication	276,265
Insurance	247,932
Technology	62,676
Professional Fees	32,445
Equipment Rental	39,150
Maintenance & Repairs	249,416
Office Expense	27,945
Bad Debts	32,000
Depreciation	108,557
Leasehold Amortization	575,672
Interest Expense	1,210,330
Other	5,759
	<u>2,868,147</u>

*Total Operating Expenses* 8,818,203

*Operating Revenues Less Expenses* 1,910,618

**Non-Operating Revenues (Losses)**

Investment Return	37,197
Unrealized Gain (Loss) on Investments	(13,629)
Gain on Sale of Property	7,561
	<u>31,129</u>

*Increase (Decrease) in Net Position* 1,941,747

*Net Position at Beginning of Year* 6,073,955

*Net Position at End of Year* \$ 8,015,702

**GRADY COUNTY CRIMINAL JUSTICE AUTHORITY**  
**Statement of Cash Flows**  
**Year Ended June 30, 2018**

**Cash Flows from Operating Activities**

Cash Receipts for Inmate Services	\$ 10,083,279
Other Cash Receipts	
Cash Payments for Professional Services	
Cash Payments to Employees for Services	(3,106,292)
Cash Payments for Other Personnel Expenses	(1,169,650)
Cash Payments for Interest	(1,197,525)
Cash Payments to Other Suppliers of Goods or Services	<u>(2,547,334)</u>
<i>Net Cash Provided by (Used in) Operating Activities</i>	2,062,478

**Cash Flows from Capital and Related Financing Activities**

Addition to Restricted Cash	(167,765)
Addition to Bond Trust Accounts	(29,435)
Repayment of Bond Principal	<u>(275,000)</u>
<i>Net Cash Provided by (Used in) Financing Activities</i>	(472,200)

**Cash Flows from Investing Activities**

Purchase of Property and Equipment	(538,122)
Sale of Property and Equipment	14,090
Purchase of Investments	(65,260)
Sale of Investments	<u>89,989</u>
<i>Net Cash Provided by (Used in) Investing Activities</i>	<u>(499,303)</u>
<i>Net Increase (Decrease) in Cash &amp; Cash Equivalents</i>	1,090,975
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>4,622,138</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 5,713,113</u></u>

**Reconciliation of Operating Income (Loss) to Net Cash  
Provided by Operating Activities:**

Operating Revenues Less Expenses	\$ 1,910,618
Adjustments to reconcile operating income to net cash:	
Facilities Lease Amortization	575,672
Depreciation	108,557
Increase in Accounts Receivable	(645,542)
Increase Allowance for Bad Debts	32,000
Increase in Accounts Payable and Accrued Expenses	65,160
Amortization of Bond Discount	<u>16,013</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 2,062,478</u></u>

## GRADY COUNTY CRIMINAL JUSTICE AUTHORITY

### Notes to Financial Statements

Year ended June 30, 2018

#### **Note 1: Summary of Significant Accounting Policies**

The financial statements have been prepared on the accrual basis of accounting and, accordingly, include all significant receivables, payables and other liabilities (Except for recognition of certain pension amounts as described in the Independent Auditor's Report). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

##### **1.A. Financial Reporting Entity**

The Grady County Criminal Justice Authority (GCCJA) is a beneficial public trust created under the authority of and pursuant to the provisions of Title 60, Oklahoma Statutes 2001, Sections 176-180.3, inclusive, as amended, and the Oklahoma Trust Act on August 12, 2002 for the use and benefit of Grady County, Oklahoma (Beneficiary). The purpose of the GCCJA is to operate and maintain buildings and facilities for public use or benefit, including jail facilities in Grady County, Oklahoma. The GCCJA began operating the jail facilities in December 2002. Operating revenues consist of incarceration fees and other service revenues related to operation of the correctional facilities.

The GCCJA is authorized, for the advancement of public purposes, to issue revenue notes and bonds to construct, improve, equip or acquire buildings, facilities or utilities which may be for the benefit of the Beneficiary County or for any other purpose which may enhance the accomplishment of the GCCJA's purposes. In no event do any bonds or other indebtedness of the GCCJA constitutes a debt of the State of Oklahoma, or of Grady County, but shall be paid solely from the Trust Estate. The GCCJA has no taxing authority.

##### **1.B. Basis of Presentation**

The financial statements display information about the reporting entity as a whole. They include all funds of the reporting entity. These statements generally distinguish between governmental and business-type activities. All activities of the Authority are business-type, and accounted for as a Proprietary Fund. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

##### **Proprietary Funds**

Enterprise Funds – Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

##### **1.C. Measurement Focus and Basis of Accounting**

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.



## GRADY COUNTY CRIMINAL JUSTICE AUTHORITY

### Notes to Financial Statements

Year ended June 30, 2018

In the financial statements, the business-type activities are presented using an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, and cash flows. All assets and liabilities (whether current or non current, financial, or non financial) associated with their activities are reported. Proprietary fund equity is classified as net position.

#### 1.D. Assets, Liabilities and Net Position

Cash and Cash Equivalents - For the purpose of the statement of cash flows, the Authority considers all demand deposit accounts, interest bearing checking accounts and time deposits accounts including certificates of deposit and U.S. Treasury bills, (all of which are allowable investment types) with maturities of three months or less to be cash and cash equivalents, with the exception restricted cash. Management's policy is to minimize custodial credit risk by ensuring that all cash in banks is either FDIC insured or collateralized with securities pledged by the financial institution.

Accounts Receivable - Include amounts receivable from various agencies for services rendered. The Authority has established an allowance for doubtful accounts receivable to recognize the estimated uncollectible accounts. Accounts receivable, stated at \$1,314,925, consists of \$1,483,925 receivable from customers less \$169,000 allowance for doubtful accounts.

Bond Trust Fund- Represents cash and US Treasury money market funds held by bond Trustee pursuant to terms of the 2012 Revenue Refunding Bonds Indenture, and can only be accessed according to terms of the Indenture.

Investments- Investments are carried at fair value. The increase or decrease in fair value during the year is reported as unrealized gain(loss) in the statement of revenues, expenses and changes in net position. Investments are governed by the Board of Trustees and any restrictions in the Trust indenture, which permits all types of investments.

Equity Classifications- Equity is classified as net position and displayed according to three types of components:

Invested in capital assets, net of related debt  
Restricted  
Unrestricted

#### 1.E. Estimates

The preparation of financial statements and disclosures requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# GRADY COUNTY CRIMINAL JUSTICE AUTHORITY

## Notes to Financial Statements

Year ended June 30, 2018

### Note 2: Bonds Payable and Facilities Lease

On February 1, 2012, the Grady County Criminal Justice Authority issued Series 2012 Revenue Refunding Bonds in the amount of \$18,310,000 which were sufficient to retire all outstanding correctional facilities debt previously issued by Grady County Industrial Authority. Simultaneously, GCCJA entered into a facilities lease with Grady County to occupy and enjoy exclusive possession of the detention center through October, 2041 and so long as any part of the 2012 bond indebtedness is outstanding.

Accordingly, effective February 1, 2012, the Grady County Industrial Authority was released from responsibility of supervising the activities of the detention center.

In connection with the GCIA debt refunding and issuance of new debt, the GCCJA obtained the exclusive right to possess and enjoy the detention center facilities, which has been capitalized as the Facilities Leasehold, reflected in the Statement of Net Position:

Facilities Leasehold, Cost	\$17,126,228
Less Accumulated Amortization	<u>(3,693,892)</u>
Facilities Leasehold, Net	<u>13,432,336</u>

The leasehold is being amortized over the life of the lease under the straight-line method, which resulted in expense of \$575,672 during the year ended June 30, 2018. Upon retirement of the 2012 Bonds, GCCJA will pay an annual lease to Grady County in the amount of ten dollars in consideration for renewing the lease term in subsequent years.

The Indenture for the Grady County Criminal Justice Authority 2012 Revenue Refunding Bonds provides for semi-annual payment of interest on May 1 and November 1, and principal reduction annually on November 1. Interest is fixed at seven percent, with final maturity on November 1, 2041. Debt service requirements are as follows:

Year Ended	Interest	Principal	Total
2019	\$ 1,177,575	\$ 295,000	\$ 1,472,525
2020	1,156,225	315,000	1,471,225
2021	1,133,650	330,000	1,463,650
2022	1,109,675	355,000	1,464,675
2023	1,083,950	380,000	1,463,950
2024-2028	4,964,925	2,345,000	7,309,925
2029-2033	3,984,925	3,305,000	7,289,925
2034-2038	2,609,075	4,635,000	7,244,075
2039-2042	<u>730,800</u>	<u>5,010,000</u>	<u>5,740,800</u>
	\$ <u>17,950,800</u>	\$ <u>16,970,000</u>	\$ <u>34,920,800</u>

The GCCJA 2012 Bonds were sold at a discount of \$343,312. Discount is being amortized over the life of the bonds using the effective interest method; Discount amortization (recognized as interest expense) was \$16,013 for the year ended June 30, 2018.

# GRADY COUNTY CRIMINAL JUSTICE AUTHORITY

## Notes to Financial Statements

Year ended June 30, 2018

GCCJA has assigned and pledged the Facilities Lease and any interest of Authority in the Facilities and any interest of Authority in the personal property, improvements and fixtures constituting the Facilities, and Criminal Justice Revenues and any other revenues and receipts receivable under the Facilities Lease to the Trustee pursuant to the Indenture as security for payment of the principal and interest on the Series 2012 Bonds and the County consents to such pledge and assignment.

The Facilities Lease Agreement provides for an annual renewal with respect only to the housing and care of Grady County inmates. The parties agree annually to the maximum number of County inmates to be housed, in exchange for a fixed fee paid by County to Authority. Grady County paid \$600,000 for inmate housing services during the year ended June 30, 2018.

### Note 3: Detailed Notes on Transaction Classes/Accounts

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's practice is to require pledging of securities to collateralize bank deposits in excess of FDIC insured limits. At June 30, 2018, the balances on deposit with financial institutions totaled \$6,054,042 and of that amount, \$650,288 was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining \$5,403,754 was secured by pledge of marketable securities in the name of pledging financial institution.

Property and Equipment – Property and equipment consists of transport equipment, building improvements and other equipment used in the law enforcement center. Assets are depreciated using the straight-line method, over estimated useful lives of five to twenty years.

	6/30/17	Additions	Sales	6/30/18
Transport and Equipment	\$ 643,166	\$ 234,168	\$ (208,839)	\$ 668,495
Facility Improvements	62,112	50,175	0	112,287
Buildings	100,895	38,918	0	139,813
East Unit Construction	26,860	434,113	0	460,973
Land	150,942	0	0	150,942
	<u>983,975</u>	<u>757,374</u>	<u>(208,839)</u>	<u>1,532,510</u>
Less: Accum. Depreciation	<u>(369,706)</u>	<u>(108,557)</u>	<u>202,310</u>	<u>(275,953)</u>
	<u>614,269</u>	<u>648,817</u>	<u>(6,529)</u>	<u>1,256,557</u>

Other property and equipment is limited to items of computer and office equipment costing less than \$3,000, which are expensed as purchased. All other facilities used in the detention center are the property of Grady County, Oklahoma, and subject to the Facilities Lease, discussed above.

Inmate Trust Fund Cash - The Authority administers a separate deposit account to receive and disburse inmate funds while incarcerated (Inmate Trust Fund).

Authority contracts with an outside vendor to fulfill inmates' commissary needs. Inmate trust fund cash of \$145,133 is presented as restricted cash, and the related Inmate and Commissary Payable of \$105,161 is included in current liabilities on the Authority's statement of net position. Monies received from and paid to inmates or the commissary provider through the inmate trust fund account are not reflected in the cash flow statements or recognized as income or expense by the Authority.

## GRADY COUNTY CRIMINAL JUSTICE AUTHORITY

### Notes to Financial Statements

Year ended June 30, 2018

Bond Trust Fund Accounts – Accounts held by bond Trustee include \$2,670,080 invested in Goldman Sachs Financial Square money market fund consisting of U.S. Treasury Obligations and U.S. Government Securities. Interest earned for 2018 was approximately one percent.

Bond trust fund accounts are recorded at cost, which approximates fair value due to the nature and short maturities of the deposits.

Commissary and Phone Revenue Cash – Commissions earned from inmate commissary and telephone charges must be spent on inmate services; the balance of restricted commissary and phone revenue cash was \$246,527 as of June 30, 2018.

Management applies discretion in whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Investments- U.S. Treasury and Agency securities, stated at fair value, consist of the following:

	Interest Rate	Fair Value	Cost
US Treasury Notes & Bonds	.62 – 2.75	\$ 279,959	\$ 285,949
US Government Agency Securities	1.12 – 3.75	414,307	431,925
		<u>\$ 694,266</u>	<u>\$ 717,874</u>

Maturities range from February 2019 to May 2031. Investments are priced by the investment firm where they are placed, utilizing an independent pricing service. Fair value of securities is established daily, based on trading values of identical securities in the marketplace. These fair value measurements are considered Level 1 measurements.

US Government Agency Securities include fixed income securities invested in Federal National Mortgage Assn (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). The credit quality ratings on those investments are AA+ for long term debt and A-1+ for short term debt as reported by Standard and Poor's.

#### Note 4: Related Organizations

The GCCJA is related to Grady County, Oklahoma as the primary beneficiary of the Authority. Additionally, certain facilities and personnel were shared by GCCJA and Grady County Sheriff's Department in operation of the jail. GCCJA leases and occupies facilities owned by Grady County, Oklahoma which are pledged on the 2012 Series Bonds issued by GCCJA.

During June 2016, GCCJA Board of Trustees authorized formation of a separate entity, incorporated in the State of Oklahoma, to facilitate the submission of an application for financing to United States Department of Agriculture. There was no activity in the Grady County Criminal Justice Corporation for the year ended June 30, 2018.

# GRADY COUNTY CRIMINAL JUSTICE AUTHORITY

## Notes to Financial Statements

Year ended June 30, 2018

### Note 5: Retirement Plan

Authority has elected to participate in the Oklahoma Public Employees Retirement System (OPERS), which is a defined benefit retirement plan for state and local government employees. The plan is qualified under section 401(a) of the Internal Revenue Code and participation is mandatory for all eligible employees. An employee is eligible upon employment and expected to work at least 1000 hours per year. The Authority, through Board resolution, has elected to make employer contributions of 11.5 percent of gross wages and require employee contributions of 8.5 percent of gross wages during fiscal year 2017-2018. Employer contributions for the current and prior two years are as follows:

<u>Year Ended</u>	<u>Required Contribution Rate</u>	<u>Amount Contributed</u>
June 30, 2018	11.5%	\$325,060
June 30, 2017	16.5%	408,366
June 30, 2016	16.5%	409,575

The Authority has been informed by OPERS there is a potential liability for additional contributions resulting from a failure to make payments into the system on behalf of employees in the initial stages of their employment during the years 2003 through 2013. The potential amount due cannot be reasonably estimated at this time.

Plan financial reports and additional plan information, including the Authority's proportionate share of pension liability, may be obtained by contacting Oklahoma Public Employees Retirement System at P.O. Box 53007, Oklahoma City, OK 73152-3007 by calling OPERS at (800) 733-9008, or online at [www.opers.ok.gov](http://www.opers.ok.gov).

### Note 6: Concentrations

Approximately ninety percent of incarceration revenues for the law enforcement center are derived from contracts with the federal government. If the federal government were to withdraw federal inmates from the facilities, it would severely impact the operations of the law enforcement center; however, management believes the need for federal inmate housing will continue to increase.

### Note 7: Subsequent Events

Subsequent events were evaluated through January 31, 2020, which is the date the financial statements were available to be issued.

In April 2018, Authority approved contracts totaling \$3,800,000 for the construction of new facilities to house approximately 180 additional inmates. Construction began in May 2018 and was completed in July 2019. Total cost to complete the new building project was approximately \$4,223,000.

In November 2018, Authority borrowed \$16,000,000 from a bank to refinance the balance owed on the 2012 bonds payable. The promissory note, originated on November 1, 2018, provides for monthly payments of \$101,084 including interest fixed at 4.42% for the first sixty months and adjusting every sixty months thereafter for a total loan term of twenty years.

# **GRADY COUNTY CRIMINAL JUSTICE AUTHORITY**

## **Notes to Financial Statements**

**Year ended June 30, 2018**

### **Note 8: Risk Management**

Grady County Criminal Justice Authority purchases property and liability insurance coverage through the Association of County Commissioners of Oklahoma Self-Insurance Group (ACCO-SIG). Policy deductibles are \$50,000 per claim, with a maximum deductible of \$100,000 per year. In addition to policy premiums, GCCJA may be required to submit a deposit against potential claims each year; however, all payments to ACCO-SIG for insurance premiums and deductibles are reflected as insurance expense in the Statement of Revenues, Expenses and Changes in Net Position because the deductible funding is not refundable.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Grady County Criminal Justice Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Grady County Criminal Justice Authority, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Grady County Criminal Justice Authority's basic financial statements, and have issued our report thereon dated January 31, 2020.

Our opinion on the financial statements was qualified because management has elected not to adopt accounting standards for pensions that require employers to recognize their proportionate shares of collective pension amounts resulting from participation in cost-sharing multiple-employer retirement plans.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Grady County Criminal Justice Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Grady County Criminal Justice Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Grady County Criminal Justice Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist and not be identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 18-001 and 18-002 that we consider to be significant deficiencies.

### **Compliance and Other Matters**


As part of obtaining reasonable assurance about whether Grady County Criminal Justice Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Grady County Criminal Justice Authority Response to Findings**

Grady County Criminal Justice Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Grady County Criminal Justice Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Duncan, Oklahoma  
January 31, 2020



**Grady County Criminal Justice Authority**  
**Schedule of Findings and Responses**  
**Year ended June 30, 2018**

**18-001**

**Criteria:** Preparation of financial statements in accordance with accounting standards generally accepted in the United States is the responsibility of management.

**Condition:** The financial statements prepared by management on a monthly basis are presented on the cash basis of accounting and are utilized primarily for cash and budget management purposes. Adjustments are necessary to convert the cash basis financial statements to the accrual method financial statements in accordance with accounting standards generally accepted in the United States.

**Cause and Effect:** Limited staffing makes it impractical to hire personnel with expertise in preparing financial statements on the full accrual method in accordance with accounting standards generally accepted in the United States. Therefore, significant adjusting entries were necessary as a result of audit procedures.

**Recommendation:** The Authority should engage a qualified individual or firm with the appropriate level of expertise in financial reporting to assist management in preparing the financial statements submitted for the annual audit.

**Management's Response:** The Authority has engaged a CPA with the needed expertise to assist in preparing the year-end financial statements for our next audit.

**18-002**

**Criteria:** Inmate funds for commissary and telephone services are maintained for the benefit of inmates; Authority is accountable for the deposit and use of the funds in a separate deposit account and accounting system.

**Condition:** Commissary sale transactions are initiated and recorded by the commissary vendor in the commissary accounting system. The Authority records deposit of inmate funds in the same system. All transactions are reconciled to the bank account.

**Cause and Effect:** During the year, certain commissary commissions paid to Authority were mistakenly recorded as deposits to the inmate funds account; as a result the book balance of inmate cash funds was overstated in the commissary accounting system.

**Recommendation:** The Authority should adopt procedures to ensure that recording errors are identified and corrected immediately so that accounts can be reconciled to the bank balances every month.

**Management's Response:** The commissary vendor has corrected deposit errors and accounts are being reconciled to cash and inmate balances monthly.